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CORRESPONDENCE

BETWEEN THE

Government of New South Wales

AND THE

BANK OF NEW SOUTH WALES.

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TO THE PROPRIETORS OF THE BANK OF NEW SOUTH WALES.

CONCEIVING that many of the shareholders may desire to know the circumstances which led to a rupture of the business relations which for so long a time had existed between the Government and the Bank, the Directors have caused to be put into type the whole of the correspondence that passed between the parties, and now submit it for the information of the proprietary.

A course of this kind has been rendered the more expedient seeing that there has been issued from the Government Printing Office a pamphlet purporting to be that correspondence, but in which one, at all events, of the Bank's letters does not appear, and an important portion of another has, strange to say, been withheld, and in lieu of these is given a lengthy memorandum made by the Honorable W. B. DALLEY, Esq., which was not transmitted to the Bank, and forms no part of the correspondence.

Had that memorandum been communicated to the Bank, the Board would have felt it to be their duty to reply to it, and to point out its patent fallacies. They content themselves with now saying with great regret that in matter and manner they view it as quite undeserving the respect and deference which every deliberate utterance emanating from the Government of this Colony or its Attorney-General should command, and that no portion of the Bank's correspondence can be truthfully described by such words as "offensiveness," "incoherence," or "insolence," which the Honorable W. B. DALLEY, Esq., has so improperly used.

The immediate cause of the relinquishment by the Board of the honour of being the Government Bankers was, that of late the management of the finances of the country has been so erratic, there has been such a want of foresight and precaution in providing funds for the Government expenditure (resulting at one time in

enormous overdrafts beyond the provision in the agreement, and consequent drain upon the resources of the Bank of New South Wales ; at another, in vast, and to the Bank, embarrassing surplus,) as to make it impossible to conduct the account in accordance with sound banking principles—in fact rendering the account a trouble and menace to the interests of the Bank, as well as a danger and loss to the country.

The Bank's special interest in the question having now ceased, the Directors have no hesitation in expressing their opinion that no advantage whatever will accrue to the Colony through the business of launching loans and inscribing stock being confided to the Bank of England rather than to a Colonial Bank ; and that the credit of the Colony requires no such adventitious support as is erroneously imagined will arise from the Agency of the Bank of England being resorted to. Your Board are however fully persuaded that the change will operate largely to the benefit of your Institution.

THOMAS WALKER,

PRESIDENT.

THE TREASURY, NEW SOUTH WALES.

Sydney, 9th August, 1884.

SHEPHERD SMITH, ESQ.,

General Manager,
Bank of New South Wales.

SIR,

I have the honour, by direction of the Colonial Treasurer, to inform you that, by letter, dated the 20th June last, the Agent-General advises the Government that the Bank of England object to inscribe any future loan of this colony unless the stock be issued through that bank. This letter confirms the substance of telegraphic messages previously received from Sir Saul Samuel, copies of which were sent you by Mr. Dibbs on the 26th June.

The announcement of this determination on the part of the Bank of England, after its inscription of three successive loans without any such stipulation, was wholly unexpected, but imposes, nevertheless, upon the Government, the necessity of reviewing the position.

When, in the early part of last year, it was decided to arrange with the Bank of England for the inscription of our loans, under the protection of an Act of the Imperial Parliament, in contradistinction to the then existing mode of issue by debentures, the subject was carefully considered, and the desirability of the change, on public grounds and in the public interest, was, in the opinion of the Government, sufficiently manifest.

The question which the Government has now to consider is one of great gravity and importance, and after much anxious consideration, they have arrived at the conclusion that it would be in the best interests of the colony to continue the inscription at the Bank of England, even though it involved the issuing of the loan by that Institution, rather than that recourse should be had again to the former plan of issuing our loans in debentures, or having two sets of inscribed stock at different banks.

I am directed by Mr. Dibbs to give you the earliest intimation of the decision at which the Government has arrived in this matter, and I am to add that when the arrangements to this end are completed, the fact will be formally notified to you, so that your Bank

may have the opportunity, should you so desire it, of revising the other provisions of the existing contract in terms of clause 6 of the "conditions of contract."

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES.

Sydney, 15th August, 1884.

The Honourable

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your favour of the 9th instant, notifying your receipt of an official communication from the Agent-General, that the Bank of England objects to inscribe in its books "any future loan of this colony unless the stock be issued through that Bank."

2. That the announcement of such objection had been "wholly unexpected" by you, and provocative of the grave and anxious consideration of your Government.

3. That in view of the complications thus unexpectedly forced upon you, "the Government have arrived at the conclusion that it would be in the best interests of the colony to continue the inscription at the Bank of England, even though it involves the issuing of the loan by that institution, rather than that recourse should be had again to the former plan of issuing our loans in debentures, or having two sets of inscribed stocks at different banks."

4. That some further communication will be made to us when arrangements have been completed, so that we may exercise certain of our rights, if we so desire.

In reply, I am directed by my Board to express to you their high appreciation of the kindly manner in which you have conveyed to the Bank of New South Wales an announcement by the Bank of England which surprises us as much as it seems to have surprised your Government.

We, with yourselves, had viewed the imposition by the Bank of England of an exceptional initial commission charge of £600 per million for inscription, in addition to a like annual charge, as the distinct recognition by that Bank, of a deliberate and well-considered policy on your part, and as that Bank's method of compensating

itself for the absence of a profit which, by insisting upon issue as well as inscription, it had hoped to secure.

We are advised from our London Office, as we have no doubt you must have been by the Agent-General and the Inscription Commissioners of this colony in that city, that the sole object of the Bank of England, so far as the Agent-General can learn, in attempting now to disrupt your policy and our arrangements (made by us, at least, at considerable expense, and temporary inconvenience,) is to secure more profit for its shareholders.

With our long and varied experience of the extreme sensitiveness of the Ministers of this colony to anything approaching, or construable into, an attempt on the part of their bankers to interfere with or dictate on matters of Government policy, we can quite understand that this patently coercive action by the Bank of England is as unpleasant as it is "unexpected" to yourself and your Cabinet.

To my Directors, after they had made costly arrangements for efficiently carrying on their connection with the Government for a long period, the announcement, now so unexpectedly made to us, presents itself as in the light, so far as the Bank of England is concerned, of approaching to, if not exactly and legally exemplifying, a breach of banking faith.

But acknowledging the position in which the unexpected action of the Bank of England has placed both your Government and ourselves, as of a trying and exceptional kind, and assuming that until we hear further from you, the Government have arrived at no final arrangements, I am directed by my Board to submit for your consideration that it may not be in "the best interests of the colony" that these coercive proceedings of the Corporation of the Bank of England should be allowed to disturb or upset your policy, and existing banking and financial contracts.

In obedience to that direction, I respectfully submit—

1. That there is no natural connection by way of community of interest between the Government of this colony and the Banking Corporation named the Bank of England, to be compared with the interests existing in common between the Government of this colony and the Banking Corporation named the Bank of New South Wales.

2. That if the Bank of England has attained a world-wide reputation for strength (and that alone) as compared with other joint stock banks in England, such reputation is entirely due to the fact that it is identified in certain ways with the Government of England; has been, and is, in certain ways, supported by that Government; and has been and is in consequence (as its paid financial agent) capable of rendering its patron (as the reflector of its own

wealth) active and constant banking and financial assistance and support.

3. That the success of the connection between the Government of England and the trading Corporation called the Bank of England teaches a lesson, if it teaches anything at all, that this colony should attach to itself some local Corporation of the like kind, pulsating in harmony with the financial interests of this country rather than with any Corporation entirely free and separated from them.

4. That the Bank of England has no special interest, as a Corporation, in sustaining or protecting the credit of this colony, either in England or elsewhere. That it has never lent the colony one shilling. That it never, in any of its agreements with your Government, did other than stipulate that long previous provision in coin must be made for every farthing which it would undertake to pay on account of the colony. That it is neither specially experienced, nor qualified, as compared with ourselves or other London Banking Corporations, in the floating of general loans, or the conduct of colonial financial concerns.

5. That this Bank is so identified with the financial interests of the country, that it cannot be other than vitally concerned in the success of any financial operation entrusted to it here, or on the London Market.

6. That we have proved ourselves willing and competent to deal with the loan operations of this colony in London for many years past, even when those operations involved very huge advances, directly and indirectly.

7. That more than one of the recent loans of the colony, as you are aware, must have been publicly declared as marked failures, had we not, at your request, and to the extent of millions of money, directly and indirectly, upheld the credit of your securities.

8. That your relations with the Bank of England provide for no such support ; and that from the well-known habits of business of that Corporation, you can in no wise expect it to be given.

9. That the Corporation of the Bank of New South Wales can better issue and float (and at least as well inscribe) the stock of the colony than the Corporation of the Bank of England, and *that* certainly at a *very great saving of expense per annum* to the country, as any comparison between the amounts paid to the Bank of England, and the rates offered by ourselves will, as we think, startlingly demonstrate.

To these points I might add others, but at present I only desire to arrest, if may be, any final decision on the part of the Government until you have afforded me an opportunity to consider with you the whole position, for I am urged by our London Managing Director to advise you strongly to float your next loan in 40 year

A COMPARISON of the arrangements for the conduct of the Banking business of the Government of New South Wales recently made between the Government and the Bank of England and the Associated Sydney Banks with the terms of the now broken arrangement between the Government and the Bank of New South Wales will not justify the assertions which have been made that the country will be a considerable gainer by its change of Bankers.

Comparing the terms of the Bank of England for floating and inscribing loans with the terms of the Bank of New South Wales it will be found that the very contrary is the fact.

The Bank of England did charge a preliminary commission of £600 per million (whether this charge is still made is not clear). It receives a commission of $\frac{1}{2}$ per cent. for floating, and an annual commission of £600 per million for inscribing.

The Bank of New South Wales made no preliminary charge, accepted a commission for floating of $\frac{1}{4}$ per cent. on the first million, and $\frac{1}{8}$ per cent. after, and offered to inscribe for £400 per million annually.

Taking the recent loan of £5,500,000. The Bank of England's charges would be—

Initial charge of £600 per million	...	...	...	£3,300
$\frac{1}{2}$ per cent. for floating	...	...	...	27,500
£600 per million, for 40 years, for inscribing	...	...	...	132,000
				<u>£162,800</u>

or assuming that the Bank foregoes the initial charge when it has the complete conduct of a loan, this total will be reduced by £3,300 to £159,500

while the Bank of New South Wales charges would have been—

Initial charge...	...	...	...	Nil.
$\frac{1}{4}$ per cent. on £1,000,000 for floating	...	...	...	£2,500
$\frac{1}{8}$ per cent. on £4,500,000 for floating	...	...	...	5,625
				<u>£8,125</u>
£400 per million for 40 years for inscribing	...	...	...	88,000
				<u>£96,125</u>

If instead of inscribing stock the Government had kept to the system of issuing debentures,

The charges of the Bank of New South Wales would have been—

$\frac{1}{4}$ per cent. on £1,000,000 for floating	...	...	...	£2,500
$\frac{1}{8}$ per cent. on £4,500,000 for floating	...	...	...	5,625
				<u>£8,125</u>
$\frac{1}{4}$ per cent. for paying £192,500 coupons (annual interest on £5,500,000, at $3\frac{1}{2}$ per cent.)	...	...	...	£481 5s.
annually. Total for 40 years	...	...	...	19,250
				<u>£27,375</u>

and these comparisons take no account of the loss of interest on the difference between these amounts.

The other business effected in London comprises—the rate of interest allowed on deposits, and the rate charged on advances.

The Associated Banks allow 1 per cent. below the Bank of England rate (but not more than 5 per cent.) up to £1,000,000, and £100,000 of the deposit is not to carry interest.

The Bank of New South Wales allowed 1 per cent. below the Bank of England rate on the whole Government deposit. The whole of a £5,500,000 loan might thus have been in deposit with the Bank of New South Wales, bearing full interest.

As to the amount of advances in London and rate of interest thereon—

Both the Associated Banks and the Bank of New South Wales are bound to advance on the same terms, *i.e.*, 1 per cent. above Bank of England rate, but not less than 5 per cent.

The Associated Banks are bound to advance up to £250,000 without security, and £1,000,000 with security, while the Bank of New South Wales was bound to advance up to £100,000 without security, and £750,000 with security.

For the transfer of money from London to Sydney the Associated Banks give the Government a premium of 7s. 6d. per cent., and will transfer not more than £500,000 a month. The Bank of New South Wales gave the Government a premium of 10s. per cent., and agreed to transfer £350,000 on application, £350,000 thirty days after, and £500,000 every thirty days after.

Thus on the transfer of £5,000,000—

The Associated Banks give	...	...	£18,750.
And the Bank of New South Wales gave	...	...	25,000.

There is clearly then great loss to the Colony involved in almost every item of change effected by the Government in the conduct of their London business.

As to the transactions in the Colony—

The rates for transferring and paying moneys are the same by the Associated Banks and the Bank of New South Wales, the only difference in the terms referring to the amount taken on deposit and the amount allowed on overdraft. The Associated Banks will take on deposit at 3 per cent. £750,000, beyond £100,000 bearing no interest. The Bank of New South Wales took on deposit at 3 per cent. £250,000, beyond £50,000 bearing no interest. But the Bank of New South Wales took £500,000 on fixed deposit for 12 months at 3 per cent., while the Associated Banks are not required to take a fixed deposit at all. The Bank of New South Wales, therefore, took as much on deposit at 3 per cent. interest as the other Banks, and received £50,000 less free of interest.

As to overdraft—

The Associated Banks will allow £500,000 without security, and £500,000 with security, at a rate of 5 per cent., while the Bank of New South Wales allowed £250,000 with and £250,000 without security at the same rate.

But as a matter of fact it will be found that the Bank of New South Wales allowed the Government to overdraw very much in excess of the contract, and at the contract rate, the advance having amounted to over £2,000,000, without security.

Debentures at $3\frac{1}{2}$ per cent. interest, and a consideration of this suggestion may influence your action.

You of course remember that the floating of the next Two Million Loan has been formally committed to our charge, and that we long since issued instructions at your request respecting it.

I shall be glad to wait upon you with reference to the whole matter if you will kindly name a time when you can conveniently give me audience.

I have the honour to be,

Sir,

Your obedient Servant,

SHEPHERD SMITH,

GENERAL MANAGER.

THE TREASURY, NEW SOUTH WALES,

Sydney, 26th August, 1884.

THE GENERAL MANAGER,

BANK OF NEW SOUTH WALES.

SIR,

I have the honour, by direction of the Colonial Treasurer, to acknowledge receipt of your letter of the 15th instant, in answer to Treasury communication of the 9th instant, on the subject of the "issue" as well as the "inscription" of our future loans by the Bank of England.

I am to inform you, in reply, that the decision of the Government in this matter, as conveyed to you in the communication above referred to, is final, and that the requisite authority to carry out the new arrangement was forwarded to the Agent-General on the 13th instant. It would, therefore, answer no practical purpose to give the subject that re-consideration to which Mr. Dibbs is invited.

Under such circumstances it would also appear to be unnecessary to notice in detail the various remarks, suggestions, and proposals contained in the letter now under reply, were it not for the very erroneous impression, adverse to the Bank of England, which you appear desirous to establish—namely, that in this new arrangement that Bank had coerced the Government, interfered with its policy, and placed its financial affairs in a position of complication and difficulty. Nor can Mr. Dibbs pass unchallenged your equally erroneous suggestion that the action of the Bank of England, in stipulating for the "issue" of our loans, "approaches to, if not "exactly and legally exemplifies, a breach of banking faith."

On this point I am instructed to say that although the announcement of the Bank of England's objection to inscribe future loans without issuing the same was unexpected by the Government, yet

that a recent correspondence between the Agent-General and the Bank of England authorities furnishes satisfactory reasons why such objection was not put forth at an earlier date. The arrangements made, in the first instance, by the Agent-General and those acting with him, were not of a general and comprehensive character so as to embrace future loans, but were limited to particular operations, as the necessity of dealing with each of them arose. Up to this time (irrespective of the converted debenture loan) the Bank of England has inscribed two loans of £3,000,000 each, both of which had been issued by the Bank of New South Wales. With respect to the first of these loans, issued in July, 1883, Mr. May, chief cashier of the Bank of England, writing to the Agent-General, under date 1st ultimo, states, "That in their personal conversation "which took place on the 28th May, 1883, when the terms "on which the Bank would undertake the inscription of the "stock of the colony were discussed, the Governors fully understood that as regards the loan of £3,000,000 issued under the "terms of the prospectus, dated 9th July, 1883, arrangements had "already been concluded with the Bank of New South Wales, and "they therefore raised no objection to it, but they certainly did not "contemplate the future issue of the stock otherwise than by the "Bank." With respect to the second of these loans, issued in December, 1883, Mr. May, in the same letter, further states that the Bank of England had no notice of the proposed loan and the contemplated use of its name as the inscribing Bank "until the "afternoon of the day preceding the publication of the prospectus in "the papers," and that when informed in this way "any objection "which the Bank might naturally have made to the inscription of the "stock would have so seriously prejudiced the loan that they waived "their undoubted right to make such objection." Mr. May adds "that it was with the view of preventing all misconception in the "future that they thought it necessary to define clearly to yourself "(the Agent-General) and Mr. Larnach, personally, on the 11th "ultimo, and subsequently by letter of 13th ultimo, the Bank's "position in the matter." These explanations have been considered by the Government and accepted as satisfactory. The correspondence discloses no attempt to coerce the Government, or to interfere with its policy or to place its financial affairs in a position of complication and difficulty. It simply defines, at a later period, those distinct terms of business which, in contra-distinction to "understandings," should have been settled by our representatives at the commencement of operations. For the assumption that any breach of faith has been committed by the Bank of England there is no ground whatever.

With respect to other portions of your letter, in which you deprecate the withdrawal from your Bank of the issue, inscription,

and management of future loans, I am directed by Mr. Dibbs to call your attention to the text of the agreements made with your Bank for the conduct of our "local" and "London" business, since the 30th June, 1876. It will be seen, upon reference to those agreements, that the Government, from the above date, has specially reserved to itself the right (continued and maintained in the now subsisting contract) to make arrangements, at any time during the currency of those agreements, with the Bank of England, for the future management of the debt, whether inscribed or debenture. The reservation of this right, established and maintained by successive administrations, indicates a settled policy which, in the fulness of time, would take effect. For well-considered reasons, the Government has decided that the time has now arrived when it would be advantageous to the colony to transfer the issue and management of our inscribed debt to the Bank of England, and of the possibility of this change it cannot be denied that your Bank has had an ample notice.

But notwithstanding the termination of the loan portion of our business, Mr. Dibbs does not view it as a necessary consequence that you should cease to conduct those other portions of our business—local and London—which have been so well managed by your Bank since 1868, and your valuable services in relation to which are cheerfully acknowledged. The proviso, in the agreements before referred to, while it establishes the right of the Government to make the change now effected, also reserves to your Bank the right to revise the "other terms" of the contract subsisting at the time such change may be effected, "should you so desire it." Should it be the wish of the Bank to make such revision, I am to say that Mr. Dibbs will be prepared to meet you with an earnest desire to settle the terms of a mutually satisfactory amendment of the existing agreement.

I am to add, with reference to that portion of your letter in which you say that the "floating of the next £2,000,000 loan has "been formally committed to your charge"—(meaning thereby the unused balance of an authority to float up to £5,000,000, which had been forwarded to the Agent-General) that in making this statement you assume a right to deal with the balance of the authority referred to which Mr. Dibbs cannot admit.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 30th August, 1884.

The Honourable

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your letter of the 26th instant, and to convey to you the respectful expression of my Board's surprise that your Government has finally arranged to supersede this Bank in its relations to the future loan business of the colony without affording to us the slightest previous opportunity of consultation with you, either as regards the subject generally, or as to the probable bearing of such action upon other sections of our banking contract, or as to its intended immediate effect upon your, at present unarranged for and daily increasing, overdraft at this office.

In proposing to deal with us thus summarily, we are satisfied that you are not even within your most rigid legal right, but whether so or not, my Directors desire me to intimate to you forthwith their clear and deep conviction that after the special exertions and risks the Bank of New South Wales has made and undertaken for years past in connection with the loans of this colony, and notably with those of which you and your colleagues have ordered the floating, you might, at least, have extended to it some little reciprocal consideration, and confidential courtesy, without either loss of independence or injury, in the smallest degree, to the interests you have in charge.

My Directors feel, however, that if, after absolutely saving two of your late loans from whole and partial failure, the standard of your gratitude for those services is to be measured by the action you now finally notify, then perhaps it is well, at least for the Bank, that its connection with the loan business of the Government should, without prejudice to existing rights, have been brought to a close, however much they may deprecate the manner in which it has been done.

Under the circumstances my Directors quite agree with you that no practical purpose could be served by your consenting to review with me what you designate as "the various remarks, suggestions" and proposals" referred to in my letter of the 15th instant.

The principles involved in those varieties must, we think, be found worth discussing presently in the interests of the colony, but we are quite assured that we have sufficiently, nay liberally, discharged our duty in offering to consider them with you, and we should have been better content if, whilst declining to discuss those important matters, you had not forced us into further comment respecting the recent action of the Bank of England.

We note carefully all that you have volunteered in defence of that Institution, and we specially mark that you base it upon "a recent "correspondence between the Agent-General and the Bank of England "authorities," which as yet, however, we are in no position to refer to, but which we venture to think will not (as a whole) support the deductions you have drawn from it.

You demur to, and challenge, what you call the erroneous impressions and suggestions contained in my letter of the 15th instant, and we are sorry for that, because it necessitates our producing evidence in proof of the allegations which you so describe and challenge.

We said on the 15th instant in effect : A. That you have been coerced by the Bank of England into a policy and action never intended or expected by you, as regards the floating of, at least, your next loan. B. That the action of the Bank of England in now stipulating for the issue of your next and all future loans, approaches to, in the opinion of my Directors, if it does not exactly and legally exemplify, a breach of banking faith ; and you must allow us now to emphatically repeat those affirmations.

It is difficult for us to understand, indeed, how you can attempt to deny coercion, for if you have not been forced unwillingly as well as unexpectedly into these "new arrangements," in that event your conduct to us, in authorizing and requesting us to arrange for the floating of a further loan for you during the present year—in committing us to preparations for that transaction—and then, in willingly, and from preference, throwing us overboard, would, we submit, deserve to be characterized in language such as we should be very sorry to be compelled to use.

Of the two positions, my Board considers that the bank has very much less to complain of, if the Government have been coerced, than if you could prove the contrary ; but I submit for your consideration the following facts and comments which, we believe, establish coercion conclusively :—

1. On the 3rd October, 1883, you forwarded to us, by letter, an Order in Council duly signed by His Excellency, which letter and order read as follows :—

"SIR,

"I have the honour, by direction of the Colonial Treasurer, to hand you, enclosed, an order of His Excellency the Governor and the Executive Council, bearing date the 2nd instant (October, 1883), authorizing the issue of a further loan of £5,000,000 "inscribed stock.

"The 'Order in Council' explains pretty fully the object of the "Government in providing for a further trial of the English money "market. Experience shows that it is quite possible to be placed in "a position of disadvantage in not being able (as under the existing

“system) to avail at once of favourable conditions of the market, under
 “which loans, of varying magnitude, may be successfully floated; and
 “having in view the desirability of making timely provision for our
 “railway works, now rapidly progressing, and of their necessary
 “extensions, it is considered expedient to place an open authority in
 “the hands of the Agent-General and your London Office, to the
 “aggregate extent of Five Millions, under which, at your joint
 “discretion (limited, as follows), the authority may be acted upon.

“I am, therefore, to state that, having due regard to the condi-
 “tion of the money market, you are authorized, with the acquiescence
 “of the Agent-General, to float a loan to the said aggregate amount
 “of Five Millions, the stock to be inscribed by the Bank of England,
 “in terms of the ‘Order in Council’—that is to say, either wholly or
 “in part—at times which you deem to be suitable for a favourable
 “realization, and after obtaining the approval of the Government,
 “who are to be advised by wire of any proposed operation, and of
 “the minimum price for tender.

“I am also to enclose three (3) certified copies, each of the
 “Acts of Parliament under which the loan is to be issued, namely:—

“41 Victoria, No. 7

“43 „ No. 11

“44 „ No. 12

“44 „ No. 28

“Beyond these instructions, the Government leave the conduct
 “of the loan in your hands and those of the Agent-General, satisfied
 “that you will do your best for the interests of the colony.

“I have, &c.,

“(Signed) G. EAGAR.

“P.S.—A copy of this letter will be sent by to-morrow’s mail
 “to the Agent-General, who is asked to place himself in communi-
 “cation with your London office.”

“ORDER IN COUNCIL.

“By His Excellency the Right Honourable Lord Augustus
 “William Frederick Spencer Loftus, Knight Grand Cross of the
 “Most Honourable Order of the Bath, a member of Her Majesty’s
 “Most Honourable Privy Council, Governor and Commander-in-
 “Chief of the Colony of New South Wales and its Dependencies.

“(Signed) AUGUSTUS LOFTUS,

“GOVERNOR.”

“The Colonial Treasurer in view of the rapid progress of railway
 “works, and in order to provide for necessary extensions of existing
 “lines, having submitted for the consideration of His Excellency the
 “Governor and the Executive Council, the desirability of making

“timely provision for these services by the raising of a further
 “aggregate sum of Five Millions in the English money market, in
 “such amounts, and at such times as may be recommended by the
 “Agent-General, and the London Banking Agents of the Govern-
 “ment, who will be instructed to watch the course of the market,
 “and avail themselves (subject to the approval of the Government)
 “of favourable opportunities of floating the loan, either wholly or
 “in part.

“And His Excellency in council having considered the proposals
 “so submitted, is pleased, upon the further recommendation of the
 “Colonial Treasurer, to authorize, and to order, and direct the issue
 “of a loan in the form of stock to be inscribed by the Bank of
 “England, to the aggregate extent of Five Millions, under the Acts
 “41 Victoria, No. 7, 43 Victoria, No. 11, 44 Victoria, No. 12, and
 “44 Victoria, No. 28, such issue to be made in London at convenient
 “opportunities, and according to the state of the English money
 “market.

“Passed the Executive Council at Sydney, in the colony of
 “New South Wales, this second day of October, 1883.

“(Signed) ALEX. C. BUDGE,
 “CLERK OF THE COUNCIL.”

We submit to you that these documents clearly place an open authority in the hands of the Agent-General, and our London Office conjointly, to float a loan of Five Millions on the London Market “in such amounts and at such times” as, subject to the approval of the Government, they may deem expedient and favourable. We submit to you that these Five Millions are expressly stated to be floated by ourselves, and inscribed by the Bank of England, and that it is no less expressly contemplated that the aggregate shall be floated in “loans of varying magnitude, having, in view the “desirability of making provision for our railway works, now rapidly “progressing.”

We submit to you that, having careful regard to these instructions, we floated three of these Five Millions in December last, and that now, when your need is urgent, and the time opportune, it is neither legally nor equitably within your rights to withdraw the floating of the remaining two millions from our hands merely because the Bank of England have “unexpectedly” assumed a new position.

We further submit to you that if in July, 1883, that Bank raised no objection to our floating a loan which they were to inscribe, simply because “arrangements had already been concluded by you with the “Bank of New South Wales,” then such reasons must apply with equal force to the two millions balance, to which I have above referred : and finally under this head—

We submit to you that if after you have obtained overdraft

advances from us, and are daily taking more on the strength of our reliance that your next loan will be floated through our London office, the Bank of England unexpectedly declines to inscribe unless it also floats, then it not only coerces you, but it does so inconsistently and capriciously.

2. On the 26th June last you favoured me with copy telegrams exchanged between yourself and the Agent-General, as follows :—

“ AGENT-GENERAL, London, to

“ COLONIAL SECRETARY, Sydney.

“ 18th June, 1884.

“ Bank of England object inscribe further loans unless they also “issue. Particulars by mail.”

“ COLONIAL TREASURER, Sydney, to

“ AGENT-GENERAL, London.

“ 21st June, 1884.

“ Cable full particulars reasons for change, and terms asked by “ Bank England for floating.”

“ AGENT-GENERAL, London, to

“ COLONIAL TREASURER, Sydney.

“ 25th June, 1884.

“ No reason for change, except determination to have pecuniary “ advantage. Bank states ours only colony for which they inscribe “ and don’t issue loans. Decline to name charge to us until specific “ proposal before them to issue loans. New Zealand and Queensland “ pay half per cent. This would doubtless be the charge to you. “ Am remonstrating against change, urging contrary to our arrange- “ ment. No expectation they will alter.”

And we submit to you that these demonstrate unmistakeably,—

Firstly. A surprise on the part of the Agent-General at new and unexpected action taken by the Bank of England.

Secondly. Your own admission that a “ change ” was being forced by them.

Thirdly. That no reason could be assigned for their action, “ except determination to have pecuniary advantage,” and

Fourthly. That the Agent-General was “ remonstrating against “ change.”

You have not favoured us with view of any correspondence between the Agent-General and the Bank of England, but we are sanguine that it will show, and we know distinctly from Mr. Larnach, who was present at the interviews between your representa-

tives in London and that Bank, that the remonstrance referred to in the telegrams took substantially the form in which we had the honour to represent it to you in our letter of the 15th instant.

3. Your own letter to us of the 9th instant refers to the action of the Bank of England as "unexpected," and as raising a question "of great gravity and importance," involving "much anxious consideration."

And you must allow us to assume that you could never willingly have brought such trouble upon yourself.

We have no desire to establish anything "adverse to the Bank of England," as you suggest, but if they have not applied coercion in this matter, the best judgment my Directors can bring to bear upon it is much at fault. Had we attempted at any time any such like action, we should have expected plain resentment.

As regards the other question, whether the Bank of England has approached what may be fairly termed a breach of banking faith, we feel that we need not discuss it. You will realize that although you and they were more directly concerned in the arrangements under notice, yet, as arising out of the connection, we necessarily became involved with them in the negotiations.

We bow to your judgment, whenever we can, in all matters in which the views of the Government should fairly have effect with us. In any question of propriety of conduct between Bank and Bank, we are satisfied that you will, on reflection, allow us to form and retain our own opinions.

We have never been forgetful of the clause in our recent agreements with the Government which provides for the possibility of an arrangement being made with the Bank of England for the management of the loans of the colony. It was first inserted by the present Premier; but we are not aware that it ever indicated a settled policy, and the fact of its having remained so long inoperative was, in our estimation, proof rather that successive administrations had no belief in the wisdom of giving it practical effect. We may think that it will prove, when really tested, a very expensive effort and failure for the country, but we urge no right to prevent its application. We think we might reasonably have been heard before it was brought into operation, and we deny that it can equitably apply to the next loan, so much so that we must claim commission on that transaction to the extent of the two millions hereinbefore referred to.

I am directed to thank you for your recognition of the services the Bank has hitherto rendered in the management of the Government banking business.

Whether my Directors may desire to revise the terms of the Bank's agreement with the Government under the altered circumstances, or what steps they may take in the matter, must depend

upon the new arrangements you have ordered with the Bank of England, and their bearing on the London portion of the existing contract. We shall feel obliged if you will inform us definitely on this subject directly your arrangements conveniently admit of it.

I have the honour to be,

Sir,

Your obedient servant,

SHEPHERD SMITH.

GENERAL MANAGER.

THE TREASURY, NEW SOUTH WALES,

Sydney, 9th September, 1884.

SHEPHERD SMITH, Esq.,

General Manager,

Bank of New South Wales.

SIR,

I have the honour, by direction of the Colonial Treasurer, to acknowledge receipt on the afternoon of the 3rd instant, of your letter of the 30th ultimo, and in doing so, I am directed to inform you that various circumstances referred to in your letter do not seem to the Treasurer to be in any way legitimate matter of observation and criticism on your part and consequently ought not to form the subjects of correspondence between the Government and yourself.

2. It cannot conduce to a satisfactory solution of any difficulty which you may deem to have arisen in the necessarily changed financial relations of the Government in connection with the inscription of stock that this correspondence should be made the vehicle of offensive and unwarranted imputations on the conduct of the Bank of England, the publication of which would be improper and unjust.

3. And while it would be impossible for the Government to permit these imputations to be made without protest against both their want of accuracy and propriety, it would be forgetful of its dignity to engage in any public discussion on such a matter elsewhere than in Parliament, should the question be there legitimately raised as a subject of debate.

4. You will not fail to remember that the services of your Bank in the satisfactory conduct of the business of the Government have been more than once acknowledged with cheerfulness. But you entirely misconceive the relations of your Bank to the Government if you suppose that you can be permitted, without protest, to adopt

precisely that course of action which you erroneously charge the Bank of England with pursuing, viz.:—coercing the Government into a certain line of conduct. Acquiescence in such pretensions would be to concede to the Bank political control of financial arrangements instead of confining it to its proper functions. And on this point I am instructed to express the regret of the Treasurer that you should have thought fit to charge the Government with any want of “reciprocal consideration,” or “confidential courtesy.” The tone of your letter is not that which ordinarily characterises business communications which are for purposes both of convenience and courtesy uniformly and properly marked by the absence of any personal element.

5. It is, I am directed to point out to you, quite unnecessary to re-open a discussion on many of the points raised in your letter of the 15th ultimo, and reiterated in that of the 30th ultimo—those that are material having been sufficiently answered in Treasury communication of 26th ultimo. It does not appear to the Treasurer that it is either desirable or expedient to add to a correspondence which has been unnecessarily prolonged, and in which the real merits of the subject have been long since disclosed and discussed.

6. I am further instructed to say that with respect to the last paragraph of your letter, desiring to be informed of the new arrangements with the Bank of England, the Government learns by telegram from the Agent-General, received on the 3rd instant, that the Bank has agreed to undertake the issue and inscription of the new £5,000,000 loan. The full details of the arrangement are not expected earlier than by the return mail, which will bring answers to the letters which left this on the 13th August last. It is intended, as far as can be determined at present, that the proceeds of the loan shall be handed over to the Bank in London doing our general business. It will be equally agreeable to the Treasurer, for the purpose of enabling your Bank (if so desired) to act upon its right to revise the subsisting contract at the earliest possible moment, to regard the arrangement with the Bank of England as completed now, or as completed when the arrangements shall be advised by letter. In whatever way you decide as to the time when revision should take place, the Treasurer wishes it to be clearly understood that the Government is not desirous to remove its large general business, local and London, from your institution, but, on the contrary, would much prefer that it remained with you on mutually satisfactory terms.

I have the honour to be,

Sir,

Your obedient Servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 12th September, 1884.

The Honourable

THE COLONIAL TREASURER,
Sydney.

SIR,

I have the honour to acknowledge your favour of the 9th instant, and to offer to you the assurance of my Directors that neither in my letter to you of the 30th ultimo, nor in any other communication ever yet made by them to the Government, have they consciously referred to "various" or indeed to any "circumstances" which in their soundest judgment, are other than "legitimate matter of observation and criticism," or to such as, "ought not to form subjects of correspondence between the Government and the Bank."

Every subject and circumstance referred to in my letter of the 30th ultimo, the Bank is directly and substantially interested in, and we entertain no doubt whatever that it is our clear legitimate privilege and duty to comment upon, and to present to you our views, respectfully yet freely, respecting all subjects and matters, in which you and we are mutually interested and concerned, and that especially so when we are under the firm conviction that you are rupturing contract engagements with us, or are otherwise doing us wrong, and such legitimate privilege we have certainly not exceeded.

We have no desire, and claim no right that you should correspond with us on any subject derogatory to your proper "dignity," but if you, in your own discretion, and on your own motion, write to us on any subject whatever and express views, or propound to us either political or financial dogmas, or standards of banking propriety, or rules for the conduct of ordinary business communications, with which we cannot agree, you can have no possible right to blame us if we respectfully respond to your implied and unsolicited invitation to discuss such subjects, and we submit that you should not tempt us to discuss them roughly by suggesting that we are making the correspondence "the vehicle of offensive and unwarranted imputations, the publication of which would be improper and unjust," or by your telling us, as *apropos* to nothing, that we cannot be "*permitted*" to coerce the Government, as "*acquiescence* in such *pretensions* would be to concede to the Bank political control of financial arrangements, instead of *confining* it to its proper functions."

Nothing will be found in my letters to provoke, or warrant, or excuse this style of address to my Directors, and how their "dignity" is to be maintained without some danger to your own, if you indulge us with such undeserved denunciations, I do not yet quite understand.

But, seeing that you have abandoned the discussion of the real points at issue between us, and have carefully avoided consideration of the (as we think) indisputable proofs submitted in our letter of the 30th ultimo (which proofs we believe we can strengthen, if hereafter you should at any time desire it), we have no intention to agonize such side issues as those raised in your last favour, for whatever may be our views respecting the action of the Bank of England, or of your treatment of us in connection with that action, you cannot suppose that if we desire to express them publicly, we should dream of choosing the "vehicle" you mention, as either the readiest or the most effective for our purpose, nor do we credit for one moment that you really believe that we have pretensions to coerce the Government politically, or to interfere with, or even to know, its financial policy, beyond what may be absolutely necessary for the protection of its own and the Bank's interests.

We are quite content to rest upon our letters of the 15th and 30th ultimo, as expressing our duty and views on the subject matter of this correspondence.

We have some difficulty, in the absence of detailed information respecting the new arrangements between the Government and the Bank of England, in determining what we shall do with reference to our relations to the general business of the Government, local and in London, but we thank you for the intimation of your preference that we shall arrange to retain it on mutually satisfactory terms, and I shall communicate with you upon the subject as soon as I possibly can.

Meanwhile, will you allow me to again remind you that without arrangement for any such sum, your local general account with us is overdrawn to the extent of nearly one million sterling, and that if we were to dishonour the Treasury cheques to-morrow you could have no possible right to complain of our action? And will you permit me to suggest that it is not reasonable that you should thus unauthorizedly be straining our resources to protect your credit at the very time that you are transferring some portion of your business to another banking institution?

We are anxious, and we have prepared ourselves, to meet your every probable requirement, but we prefer that your overdraft shall not drift indefinitely, and without arrangement, and we shall be thankful if you will indicate to us to what extent, and for what period, you desire us to provide you with the necessary funds to pay the Government cheques in excess of our contract engagements.

I have the honour to be,

Sir,

Your obedient Servant,

SHEPHERD SMITH,

GENERAL MANAGER.

THE TREASURY, NEW SOUTH WALES,
Sydney, 16th October, 1884.

THE GENERAL MANAGER,
BANK OF NEW SOUTH WALES.

SIR,

I have the honour, by direction of the Colonial Treasurer, to request that you will transfer from your London Branch to the credit of the public account of the Government in your Bank here the sum of £350,000 (Three hundred and fifty thousand pounds) on this present application; £350,000 (Three hundred and fifty thousand pounds) thirty days afterwards and £500,000 (Five hundred thousand pounds) thirty days thereafter; under the provisions of the 20th section of the "Terms" of the existing contract.

I am to add that the Bank of England is instructed, by cable, to pay your London branch the sum of £1,000,000 (One million) for credit of the public account of the Government in your said branch.

I have the honour to be,

Sir,

Your obedient Servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,
Sydney, 17th October, 1884.

The Honourable

THE COLONIAL TREASURER,
Sydney.

SIR,

I have the honour to acknowledge your favour of the 16th instant, requesting us to transfer from our London Branch to the credit of the Public Account of the Government here the sum of £1,200,000 on certain specified dates, under the provisions of the 20th section of the "Terms" of the existing contract.

I am directed to inform you, in reply, that immediately the revision of the Terms of our Agreement, now being negotiated, has been satisfactorily arranged, your letter shall have our best attention; pending that settlement, we assume that you cannot desire us to take action.

I have the honour to be,

Sir,

Your obedient servant,

CHAS. M. PALMER,
MANAGER.

THE TREASURY, NEW SOUTH WALES,

Sydney, 18th October, 1884.

THE GENERAL MANAGER,

BANK OF NEW SOUTH WALES.

SIR,

I have the honour to acknowledge receipt of your letter of the 17th instant, and I am directed by the Colonial Treasurer to point out that in his opinion the contract of February, 1881, is still current, and must remain so until a revision has been made in terms of that agreement.

It was under the 20th section of the now subsisting agreement that the request for the transfer of certain moneys—of date 16th instant—was made.

The Treasurer cannot permit any delay, or non-compliance with his request, to take place, pending negotiations for such revision of the contract. I am therefore instructed to request that you will at once intimate your intention of carrying out the demand made for transfer of funds—or your refusal to comply with such demand—as the action of the Government will be guided by your reply.

The Agent-General has been instructed to supplement the sum at the Government credit in your London office by the payment of one million sterling from the proceeds of the late loan.

As intimated by the Treasurer in a letter to you of Wednesday last, the revision of the existing and current agreement will be proceeded with without delay, and as soon as the pressing business of the Government will permit.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES.

Sydney, 21st October, 1884.

The Honourable

THE COLONIAL TREASURER.

Sydney.

SIR,

I have the honour to acknowledge your favour of the 18th instant, and to intimate to you with very great reluctance and only because in almost intimidating terms you require that it shall be presented to you in this strained form :

Firstly.—That the Bank declines to recognise the right of the

Government to "demand" the transfers therein referred to until the terms of the agreement between the Government and the Bank shall have been revised and mutually re-arranged.

Secondly.—That the Bank will not consent to make such transfer until such revision shall have been satisfactorily completed.

Thirdly.—That the Bank sees no way to practically recognise any power on the part of the Treasurer to say with any effect whatever that he "*cannot permit any delay or non-compliance with his request to take place,*" when the Bank in the free exercise of its own judgment believes him (the Treasurer) to be demanding that which is essentially inequitable, beyond his legal rights, and manifestly, if not designedly, injurious to the Bank's interests.

Fourthly.—That the Bank is not influenced in the slightest degree by any covert threats, such as may be suggested by the words which you unprovokedly convey to us, viz.: that "*the action of the Government will be guided by your reply.*"

You have been aware for many weeks past, and ever since the floating of the last loan was taken out of our hands (illegally in respect to some portion of it, as we believe), that a revision of the terms of the agreement had been rendered by you absolutely necessary.

You know full well that revised terms have, even down to detail, been considered between yourself and the General Manager of the Bank after deliberate appointments and in free consultation.

You have been in possession of the Bank's views, as to the main terms on which it proposed in future to conduct the banking business of the Government.

You have been specially alive to the fact that the clause relating to transfers was one which the Bank required to be revised and altered, and you can hardly forget that, weeks ago, you made and afterwards withdrew applications for transfers, on our express representation, and your verbal acknowledgment, that before any further transfers could be made, new terms should be agreed upon.

You have postponed, and postponed, a settlement until your loan has been floated. You have meanwhile gone on overdrawing your account with us, contrary to all your agreement terms, to the extent of £1,300,000, in Sydney, without previous arrangement with us of any kind, and we cannot now consent (it is strangely unreasonable, indeed, that you should ask us to consent) to further disorganise and tear about in this huge and spasmodic fashion all our financial strength and arrangements, by having forced upon us repayments on the other side of the world of debts due by you here, and so accepting under conditions and on terms calculated to place us at unwarrantable disadvantage, involving us in troublous inconvenience and serious loss.

You seem to be unaware that whilst you are using provocative

language to us of dictation and threat, you are, and have been for some time past, absolutely dependent upon our self-sacrificing willingness to pay your daily cheques, for even if we complied with your request to-morrow to transfer £350,000 from London to your credit here, you would still then be overdrawn with us about a million of money, and you have no contract, nor any other right whatever, to any such accommodation.

We notify you now, formally, that you are breaking your contract covenants every day, and that if you force us into that position we shall hold you responsible for your breaches.

The agreement between the Government and the Bank expressly states that in the event of the transfer of your loan business to the Bank of England we shall have the right to revise. The letter and the spirit of the agreement alike affirm that if by your action you strike away any portion of the contract business affecting our remuneration or profit we shall, as a matter of course, have the right to revise the remaining terms. The law, the equity, and the common sense of the position are, we submit to you, beyond question, that any such action of yours and our revising rights must be simultaneous. You can have no power, you should have no inclination, under the circumstances, to take from us any paying part of the contract, and fix us at the same time to other non-paying portions of it.

We are perfectly willing to make allowances for your delay in revising, whether it arises from sickness, or pressure of business, or any other cause. We are not prepared to allow your delay to be rendered conducive to your profit and our loss. It is not reasonable that it should be so.

If you are unable to consider the whole question of revision forthwith, we are ready to revise the terms of your first requested transfer of £350,000, and to make that transfer on terms to be arranged, leaving a few days, without prejudice to us, for the arrangement of other points involved; but the Bank has been subjected to such financial surprises, disturbances, and loss, by the erratic, eccentric, and entirely unprovided for fluctuations of the Government account during the last year and three-quarters, that it is quite resolved that, in its own interests and in the interests of all connected with it throughout the country, embracing very equally all classes, it must now insist upon some reasonable early re-arrangement of its contract with the Government, or it must surrender the honour of serving the Government as its bankers.

I have the honour to be,

Sir,

Your obedient servant,

CHAS. M. PALMER,
MANAGER.

THE TREASURY, NEW SOUTH WALES,
Sydney, 15th November, 1884.

SHEPHERD SMITH, Esq.,
General Manager,
Bank of New South Wales.

SIR,

I have the honour, by direction of the Colonial Treasurer, to inform you that he has received a cablegram from the Agent-General to the effect that your London Office had declined to receive a sum of £900,000 which, under instructions from the Treasurer, the Agent-General had tendered for the credit of the Public Account of the Government in your said London Branch.

I am to state that Mr. Dibbs considers this refusal as contrary to the spirit and intent of the existing agreement, and I am to ask that you will be good enough to take steps, by immediate communication with your London Branch, to prevent any such violation of the contract.

I am also to request a definite answer to Treasury communication, No. 249, of date 18th ultimo, upon the point whether you intend or not to carry out the demand made upon you by letter of the 16th ultimo for the transfer of £1,200,000 at the dates specified in said letter.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,
Sydney, 19th November, 1884.

The Honourable

THE COLONIAL TREASURER,
Sydney.

SIR,

I have the honour to acknowledge your letter of the 15th instant, delivered after business hours at the Bank on Saturday last, and to intimate to you that my Board is quite willing to instruct our London Office to receive the £900,000 to which you refer, so long as it is distinctly understood that it, and all other such transfers from the Bank of England, proceeds of the late loan, are recognised as received by us as non-interest bearing, pending the mutually

satisfactory revision of the agreement entered into between the Government and this Bank in February, 1881.

My Board directs me to repeat to you in writing, that which our General Manager expressly communicated to you, verbally, long ago—that the Bank can neither allow interest upon, nor transfer any such moneys to Sydney on any assumption that either the spirit or intent of the agreement of 1881 requires the Bank to do so, until the terms of such agreement have been revised.

We reluctantly respond to the last paragraph of your letter, in which you request a definite answer to Treasury communication, No. 249, of date the 18th ultimo, because we feel that we can only answer by sending you our letter of the 21st ultimo, which you are aware was then, and has only since been, held back from that date by mutual agreement to admit of consultations and negotiations for revision, which, until late on Friday last, we had every right to conclude had been conducted to satisfactory re-adjustment.

Such re-adjustment, in fact, is now in all points ready for formal ratification, if only the extraordinary proposition in relation to the amendment of the 20th Clause (made by you on Friday last, for the first time, and so much to the Bank's astonishment), can be removed; meaning, as it does, that the Bank shall bind itself, if called upon, to lend to the Government in this colony millions of money at an interest rate of three per cent. per annum. My Board cannot realize that, after mature deliberation, you will persevere with such a, to us, impossible and ruinous proposition.

If that be withdrawn, and the amendments as previously arranged between us are confirmed, we shall be glad to carry out your wishes in accordance with the revised agreement.

I have the honour to be,

Sir,

Your obedient Servant,

CHAS. M. PALMER,

MANAGER.

BANK OF NEW SOUTH WALES,

Sydney, 21st November, 1884.

The Honourable,

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to direct your attention again to the fact that the general account of the Government is overdrawn with us in Sydney to an extent of between one and two millions sterling.

You have been fully made aware by notices verbal, and by entries in your accounts made on the 30th September last, that for all moneys advanced to you in excess of those specially provided for in the agreement of 1881, we have been, and are now charging you interest at current rates.

But even on such conditions it is not right that the overdraft should go on indefinitely drifting, and we respectfully urge you to inform us at once to what extent you desire to overdraw, and how progressively you propose to regulate the account, in the way of increase or decrease.

I have the honour to be,

Sir,

Your obedient Servant,

CHAS. M. PALMER,

MANAGER.

THE TREASURY, NEW SOUTH WALES,

Sydney, 28th November, 1884.

THE GENERAL MANAGER,

Bank of New South Wales.

SIR,

I have the honour, by direction of the Colonial Treasurer, to acknowledge receipt of your letter of the 21st instant, and, in reply thereto, I am to invite your attention to the terms of the existing contract under which an interest rate of five per cent. per annum is fixed for any local overdraft which the Government may require.

I am further to inform you that the present state of the account, and the large overdraft here, are solely due to the neglect on the part of your Bank to transfer funds from your London office, as requested by the Treasurer, in terms of the agreement.

Your letter, dated 21st October (but only received at the Treasury on the 20th instant) and that of the 19th instant, are under the consideration of the Treasurer.

I have the honour to be,

Sir,

Your obedient Servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 28th November, 1884.

The Honourable

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your letter of this date, and to inform you in reply, that the attention of the Bank has been very fully given to the terms of the contract of 1881, from the time of its inception to the period at which the Bank's right to revision, as provided for in it, was rendered necessary by your comparatively recent contract and action with the Bank of England, and since.

In deference to your request, however, the Bank has again given special attention to those terms, and it can attach no weight to the interpretation you suggest, rather than assert, should be placed upon clause 3.

That clause is absolutely governed and controlled by clauses 5 and 6, so that if by clause 3 "an interest rate of five per cent. per annum is fixed for any local overdraft which the Government may require," it is by clauses 5 and 6 provided that the Government *cannot* "require" more than an overdraft of £250,000 without security, or more than an additional £250,000 with specified security. The Government has required the £250,000 unsecured overdraft; you have never provided the security specified for the limited further advance; and any such contention as that the Government can go on unlimitedly overdrawn with us at a five per cent. rate, is, we think, as contrary to the plain text of that contract, as we know it to be opposed to its intention, and we repeat our formal notification to you, we cannot allow it.

You are certainly now (and pending revision) being charged current interest rates for advances. Your overdraft, as you are aware, exceeds one-and-three-quarters millions sterling, and, under existing circumstances, we can owe you no legal or other obligation to pay any cheques which from day to day may be presented.

In our desire to serve the Government, and in our own interests, and in the interests of the country, we beg you to bring the differences between the Government and the Bank to an immediate settlement.

Your averment that "the present state of the (Government) account, and the large overdraft here, are solely due to the neglect "on the part of your Bank to transfer funds from your London "office, as requested by the Treasurer in terms of agreement," fairly astonishes us, for, in previous letters, we have pointed out to you that even if your transfer rights under that contract had

remained intact, you could not possibly, by any process, under the agreement of 1881, have brought your overdraft within, or even nearly within, the limits provided for, and that is such a patent and easily-proved fact that we confidently invite you to withdraw your statement as unjustifiable.

We shall anxiously await your early and substantial reply to our letters of the 21st October and 19th instant.

I have the honour to be,

Sir,

Your obedient servant,

CHAS. M. PALMER,

MANAGER.

THE TREASURY, NEW SOUTH WALES,

Sydney, 28th November, 1884.

The General Manager,

BANK OF NEW SOUTH WALES.

SIR,

I have the honour, by direction of the Colonial Treasurer, to inform you that the Agent-General, by cablegram received this day, has intimated that upwards of one million and a half (£1,500,000) of money of this Government is now lying in the Bank of England awaiting use.

As, by a previous cablegram from the Agent-General, Mr. Dibbs has learned the recent refusal of your London office to receive on deposit the sum of nine hundred thousand pounds (£900,000), tendered by Sir Saul Samuel for the credit of the public account of the Government, I am further directed to give you notice that Mr. Dibbs will hold your Bank responsible, in due season, for the loss of interest which the colony is now sustaining by reason of your refusal to carry out that portion of the existing agreement which relates to money on deposit in your London office.

I have the honour to be,

Sir,

Your obedient Servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 28th November, 1884.

The Honourable

THE COLONIAL TREASURER,
Sydney.

SIR,

I have the honour to acknowledge your letter of this date, informing me that you have received a cablegram from the Agent-General "that upwards of one million and a half of money of this Government is now lying in the Bank of England awaiting use."

We do not quite understand to what extent you desire us to comment upon that announcement, but we think it unfortunate for the Government, and we agree with you that it is injurious to the interests of the colony if any such large sum is lying idle in the Bank of England "awaiting use," or otherwise, and we are quite persuaded that, pending better arrangements, you should obtain interest for it from the Bank of England, if you can.

Had you floated your loan through us, we should have allowed you interest. You have chosen otherwise. You have broken our contracts, involved us in loss, upset the harmony of the whole of our banking arrangements with the Government, and pending the ratification by you of the revision and re-adjustment of our agreements, we decline to consent that you shall bring to us the dregs of transactions which give to the Bank of England all the profit, and to the Bank of New South Wales all the loss.

As matters now stand, you can have no right to interest allowance on any of your credit balances in our London office, and you are subject to our current rates of interest on your local overdraft.

On these conditions alone do we continue to pay your local cheques, issue credits, or transact any other portion of your business.

In response to your notification "that Mr. Dibbs will hold your Bank responsible in due season for the loss of interest which the colony is now sustaining by reason of your refusal to carry out that portion of the existing agreement which relates to money on deposit in your London office," we deny that during your persistent delay in completing revision, there is anything "existing" in relation to deposits in our London office of an interest-bearing character, and we repeat to you that we hold, and shall hold you liable for all losses and damages past, present, and to come, in consequence of your singular and continued disregard of the legal and equitable contract rights between the Government and this Bank.

I have the honour to be, Sir,

Your obedient servant,

CHAS. M. PALMER,
MANAGER.

THE TREASURY, NEW SOUTH WALES,
Sydney, 6th December, 1884.

THE GENERAL MANAGER,
BANK OF NEW SOUTH WALES.

SIR,

I have the honour to acknowledge receipt of your letters of the 28th ultimo (two in number), received at the Treasury on the 2nd instant, which I have submitted to the Colonial Treasurer, by whom I am directed to inform you that the tone of those letters, taken in connection with your previous communications, appears to be so studiously disrespectful to the Government—so much at variance with the rules of ordinary courtesy, and so calculated to prevent, instead of facilitate, a settlement of the differences between the Government and your Bank, that Mr. Dibbs desires it to be distinctly understood that, so far as the Government is concerned, this letter must close, up to this point, an unsatisfactory, irritating, and practically useless correspondence.

I am further to inform you, in reference to the interviews which you have had with the Colonial Treasurer from time to time during the last two months, at which the possibilities were discussed as to the terms likely to be accepted by both parties as a basis for the revision of the existing contract, that as no conclusions have been arrived at on the matters then at issue, the position of affairs necessarily reverts to the *status quo ante*.

With a view, however, to terminate, if possible, the present unsatisfactory state of things (which appears to be quite incapable of accomplishment by personal conference with you) I am desired by Mr. Dibbs to state, explicitly, in writing, for your final acceptance or refusal, the terms upon which the Government will agree to revise the now existing contract, namely :

1. In lieu of the transfers requested in Treasury letter of 16th October last, a transfer to be, at once, made of One million, from London to Sydney, and £350,000 a month thereafter, to be continued until further notice, at one half per cent premium—payable by you.

2. The receipt by your London Office of such deposits, with continuing interest, as we may, from time to time, desire to make.

3. The other charges for conducting the Government business, London and local, to remain as at present.

4. The right to reduce *pro rata* with other Banks, the special deposits with the Bank of New South Wales.

5. Special deposits up to £500,000 (liable to *pro rata* reduction) to be subject to an interest of 3 per cent. per annum.

6. Three per cent. to be allowed on daily balance, in terms of clause 1 of existing contract.

7. The abandonment of any claim for commission on the unused portion of the projected loans to the aggregate extent of Five millions.

8. The reduction of the rate of interest on local overdraft from 8 to 5 per cent.

If these terms be not accepted within fourteen days from date, the Government, notwithstanding that it holds that you have already broken the contract, will then be willing to forego its right to a six months' notice, and will accept an immediate termination of the existing contract, without prejudice to its right to the enforcement of the conditions of such contract, and thereupon make arrangements for the conduct of its business through other channels.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 12th December, 1884.

The Honourable,

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your letter of the 6th instant, and to convey to you the thanks of my Directors that you have at last explicitly stated in writing the terms upon which the Government will complete revision of its contract of 1881 with this Bank.

Had you kindly adopted that course two months ago, instead of leading us into verbal negotiations, the professed intent and aim of which we can in no wise reconcile with your present action, you would have saved us much expense and inconvenience.

In some sense we sympathise with your comments upon the enforced and strained tone of our recent letters—we agree that it is such as we should never have been compelled to employ, but we entirely deny that it has really been, as you say it appears to you to have been, “studiously disrespectful to the Government,” “or at variance with the rules of ordinary courtesy.”

On the contrary, we are satisfied that all the disrespect (allied with practical injustice, whether intentional or not) has been from your side; and that the variations from the rules of ordinary courtesy have their origin and are centred in your letters, not in ours.

Any and every thing extraneous to the dry conduct of our business, to be found in the correspondence, has emanated from

yourself, and we submit it to be simply indefensible that you should exhaust our resources in violation of our contract terms, bleed us of our coin without our consent, overdraw your account to the extent of nearly Two millions (your debtor balance now is above £1,800,000), and then because we remonstrate, meet us with resentful declarations such as that you are the sole judge respecting Government policy, and with unfounded accusations of studious discourtesy and disrespect.

Such attitude and expression we hold to be manifestly unreasonable and unfair.

We note your desire to avoid any further conference, and your wish to terminate correspondence. We apply ourselves, therefore, exclusively to the practical portion of your letter, and we affirm that the Bank cannot acquiesce in any such summary dismissal as you suggest, of the interviews and their results between the Colonial Treasurer, and the Under Secretary (the Hon. Mr. Eagar), and our General Manager, which you state have spread over the last two months.

According to our views they cannot possibly go for nothing, nor can we agree with you "that as no conclusions have been arrived at "on the matters then at issue, the position of affairs necessarily "reverts to the *status quo ante*"—for conclusions were arrived at, as your notes, the notes of the Under Secretary (Mr. Eagar), and our General Manager's notes must prove, and it is not possible that the "*status quo ante*" can be attained; for in virtue of those conclusions, and trusting in the good faith in which, in our belief, those interviews were held, we have permitted the Government to increase its overdraft with us in Sydney, during the negotiations, above £400,000 (four hundred thousand pounds), and we have strained our resources in many expensive ways in order to meet the wants and wishes of the Government, and to treat those negotiations and conclusions as nothing, would be, we submit, a grievous injury and injustice to the Bank.

But we contend that the conclusions arrived at during those interviews were and are binding in equity on the Government and the Bank alike. A revision was actually completed as between the Treasurer and our General Manager. The detail was reported by our General Manager to our Board from interview to interview, and the only question left open was as to whether, under clause 20, the Bank should transfer from London to Sydney, in the third month and thereafter, £350,000 or £500,000 per month as the Government might demand. If the Government will not consent to alter from £500,000 to £350,000, as we wished them to do, we shall on that point submit, but in all other respects we adhere to the terms of the revision upon which, as the result of at least two months' negotiations, we have practically agreed.

We enclose herewith copy of those terms. When you proposed to reopen and vary them by the insertion of a clause that we should come under obligation to advance, locally, to you millions of money at 3 per cent. per annum, we were compelled to refuse.

In like manner, when you propose, as you now do, an entirely new programme, omitting the commission of $\frac{1}{20}$ th per cent. on the local debit operations of your general account, and omitting the substitution of par for half per cent. premium in the 20th clause, we are also compelled to refuse.

Those two alterations were at the basis of all our negotiations. They were suggestions in the first instance of your own.

Your concession on those points was to be followed by our abandoning other commission and interest claims. That we should now be asked to commence afresh to consider new terms which embody the surrender of all the revisions in our favour, and the retention of all the conditions which tell against us, fills my Board with surprise, and the Bank has no hesitation whatever in declining it.

We beg you to understand us thoroughly. We cannot accept your interpretations of our tone, and have said so; but we have never had any desire to do other than meet your wishes. We are free from the remotest intention to intrude upon your policy in any way whatever; we should be very sorry if we had shown the Government the slightest disrespect, but for some time past we have lost money largely by the conduct of the Government business, and, valuing as we do the preservation of so old and honourable a connection, we can only attempt to preserve it on business lines and with some accruing profit to ourselves, and the terms offered in your letter are such as to preclude the possibility of our accepting them.

If you can see your way to abide by the terms embodied in the enclosed sheets, arranged between us, we are willing to transfer the million you require at once, and forego claims for loan commission, and refund interest charged exceeding 5 per cent. per annum, but failing that we must request you (reluctantly and respectfully) to arrange for the conduct of your banking business through other channels, without prejudice to any of our existing rights and claims.

I have the honour to be,

Sir,

Your obedient servant,

CHAS. M. PALMER,
Manager.

[It is unnecessary to print the suggested terms referred to in the last paragraph of the preceding letter, as the essential points are embodied in earlier paragraphs of the same letter and their insertion in extenso would occupy many pages.]

THE TREASURY, NEW SOUTH WALES,
Sydney, 16th December, 1884.

THE GENERAL MANAGER,
BANK OF NEW SOUTH WALES.

SIR,

I have the honour to acknowledge receipt of your letter of the 12th instant, received on the 13th instant.

I have already intimated to you the desire of the Colonial Treasurer that any further correspondence in regard to the revision of the Bank Agreement should cease—unless your Bank were prepared (pending a discussion of the terms of revision) to carry out its present and existing conditions.

Of that agreement I am desired to observe that up to the present time there has been no revision, either general or particular.

At the conferences, of which mention was made in my last communication, it was distinctly arranged and understood that their object was simply to talk over and discuss, in an informal way, the points that were likely to be agreed to as the basis of a revision that would be mutually satisfactory. And it was arranged, specially, that no individual proposition so discussed was to be considered as settled and binding until the whole of the matters at issue were disposed of. It was arranged that when the proposed revision was thus completed it should be submitted, not verbally and in parts or piece-meal, but in writing as a “whole” to your Directors for their approval, and by the Treasurer to the Cabinet, which was your own suggestion, concurred in by Mr. Dibbs. Neither course has been followed, as there never was a “whole” to submit, and it is useless, and but a waste of time on your part, to endeavour to set up a plea that there had been any revision, partial or otherwise, of the present agreement, a plea which is emphatically denied.

Mr. Dibbs observes that your Board declines to accept the terms mentioned in Treasury letter of 6th instant, and numbered 1 to 8 inclusive; but that, under the appearance of meeting the difficulty, you propose the immediate transfer of One million, without a word as to allowing us $\frac{1}{2}$ per cent. exchange thereon, and that you avoid binding yourself to receive in London the proceeds of our loans, and allow interest on the amount at the rate specified in clause 2 of the existing contract. On the other hand, you stipulate for concessions which you allege (but which Mr. Dibbs again emphatically denies) were made at the conferences before alluded to, thus claiming everything and yielding nothing.

I am directed, finally, to state that until the transfer of One million, demanded in Treasury letter of the 6th instant, be made to the credit of the Government, with the exchange due thereon, and until you intimate your willingness to receive the funds now in

London, subject to the interest provided in clause 2 of the existing agreement, the Treasurer will not give consideration to any concessions whatever, and will accept your refusal on these two points as a breach of the now existing contract, and make arrangements for the removal of the Government Banking business, as already intimated.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 19th December, 1884.

The Honourable

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your letter of the 16th instant.

We had noted, and we note again, your final declaration that you desire and have determined to, on your part, end this correspondence, but so long as you write we presume you really wish us to answer—we shall do it as little as possible.

We repeat, in short, that the revision provided for in the agreement of 1881, so far as our duties in connection with it are concerned, has been fulfilled. There are no such “present” or “existing” conditions left alive in it as you assume. Those conditions were equitably and legally wiped out when you availed yourself of the right to make contracts with the Bank of England, and we claimed revision, and you must forgive our declining to recognise any one-sided revival or application of your extinct privileges.

Respecting the meetings and conferences between yourself and our General Manager and their results, we have already written you fully. With the exception of ratification by the Cabinet we have said, and we believe, that they amounted in effect to a completed revision.

No amount of emphasis can possibly remove us from that conviction—we faithfully adhere to the detail terms agreed upon, and we trust that you will do the same.

We beg of you not to charge us with wasting time or doing anything “under the appearance” or deceitfully, for we would almost rather be rude to you than that, and you are perfectly aware that for months past we have verbally and in writing (see for instance our letter of the 21st October) most plainly and straightly informed you that we will not allow you half per cent. premium on any transfer from London to Sydney, and we will not receive the

proceeds of your late loan into our London office as other than non-interest bearing ; but subject to the acceptance of the revision in terms such as we sent to you in our last letter, we will receive your deposits in London as interest bearing, and we will transfer from London to Sydney at par.

We have been guided chiefly by the equities in our negotiation of this revision, but my Directors think it may interest you to see that we have been supported also in our affirmations by the legal interpretation of our rights so far as through counsel we have been able to ascertain them, and I enclose you copy of the advice which we have so received.

I have the honour to be,

Sir,

Your obedient Servant,

CHAS. M. PALMER,

Manager.

COUNSEL'S OPINION.

EX PARTE BANK OF NEW SOUTH WALES AND THE GOVERNMENT.

1. Reading conditions "1" and "6" together, the notice referred to in condition 1 relates to the termination of the whole agreement after the period of two years from 1st January, 1881.

Condition 6 refers to the right of the Government, during the currency of the contract, to make arrangements with the Bank of England for negotiation of loans, the management of the public debt, or the payment of interest thereon, and to the corresponding right of the Bank, upon such arrangements being completed, to demand a revision of the other provisions of the contract. If the Bank demands a revision of all the other provisions of the contract, and if the Bank and the Government come to an agreement on such revision, the new conditions would date back to the demand for revision and take effect from the date of such demand. If on the other hand no such agreement can be come to, the Bank can put an end to the whole of the contract, and the termination of the contract would date back to the demand for revision, and the Bank would be entitled to charge for any banking business it may have carried on for the Government in the interval, at the ordinary Bank rates, as if no contract had been made.

The same principle will apply if the Bank demands a revision of a part only of the conditions. In that case the original contract would be affected only and so far as relates to the conditions required to be revised.

2. The right of the Bank to demand a revision of the contract arose immediately on the Government completing its arrangements with the Bank of England for the negotiation of the loan.

3. The right of the Bank is limited to demanding a revision, and the Bank could not refuse to carry on the Government business until it failed to come to an agreement as to the conditions required to be revised.

4. By demanding a revision the Bank does, in fact, refuse to carry on such business on the terms and conditions of the old contract either in whole or in part, as such demand relates to the whole of the conditions or to part. Such revised conditions date back to the demand for revision.

6. Under the circumstances the Bank cannot be compelled to receive in London any sums of money to the credit of the Government accounts until the terms are revised.

7. The Bank is justified in refusing to transfer money from London to Sydney upon the terms mentioned in clause 20.

8. It appears that the Bank entered into the original agreement upon the terms stated therein, in view of the profits which the Bank anticipated from the floating of loans, and that if that profit is taken away, all, or at any rate many of the terms become open to revision, and the Bank cannot be compelled to act on the old terms of the agreement either by receiving money in London for which the Bank would have to account, or in transferring money from London to Sydney upon the old charges.

THE TREASURY, NEW SOUTH WALES,

Sydney, 5th January, 1885.

THE GENERAL MANAGER,

BANK OF NEW SOUTH WALES.

SIR,

I have the honour, by direction of the Colonial Treasurer, to acknowledge receipt of your letter of the 19th ultimo, and I am to inform you, in reply, that as you have intimated to the Treasurer, in writing, your refusal to comply with the request contained in Treasury letter of the 16th October last, relative to the transfer of funds from your London office to the credit of the Government account in your Bank here, and, as you have further refused to receive our moneys in London, and pay interest thereon, in accordance with the terms of the agreement, the Government regards these acts as serious breaches of the contract, and I am directed to inform you that Mr. Dibbs—as expressed to you in Treasury letter of the 6th December last—has made arrangements for the conduct

of the Government business, here and in London, through other channels.

I am further instructed to state that, so soon as it may be convenient to you to furnish us with a statement of the Government account, arrangements will be made for its adjustment.

In the meantime, I am to request that any outstanding cheques of the Government, other than cheques on departmental accounts (for which provision has been made for the current month), may be paid by you to our debit, on presentation thereof, or referred to the Commercial Bank, where provision is made to meet them.

I have the honour to be,

Sir,

Your obedient servant,

G. EAGAR.

BANK OF NEW SOUTH WALES,

Sydney, 7th January, 1885.

The Honourable

THE COLONIAL TREASURER,

Sydney.

SIR,

I have the honour to acknowledge your letter of the 5th instant, intimating that you have "made arrangements for the conduct of "the Government business, here and in London, through other "channels."

Coupled with this acknowledgment, I am directed by my Board to deny explicitly, as we have frequently done before, that the Bank has at any time, or in any respect whatever (either in the ways to which you refer, or otherwise), been guilty of contract breaches.

The facts, we submit, are entirely opposite, and the breaches have been all on your side.

We enclose to you herewith statement of your local balances, as at close of business this day, shewing a net indebtedness of £1,858,348 16s. 3d., and shall feel obliged by your paying us this amount forthwith, leaving any further charges and operations to be settled for as they arise. And we shall be glad to facilitate the transfer of your business in any reasonable way within our power.

I have the honour to be,

Sir,

Your obedient servant,

CHAS. M. PALMER,

Manager.

SEEING that in the preface to the foregoing correspondence a certain memorandum made by the Honorable W. B. DALLEY, Esq., is referred to, and considering by its publication in the pamphlet issued by the Government this memorandum is evidently regarded by the Ministry as a document having an important bearing on the questions at issue between the Government and the Bank, the Board of Directors think it proper that it, with the other documents, should be seen by the proprietary, and they therefore now place it in their hands.

T. W.

MEMORANDUM of the Honorable the Attorney-General for the information and guidance of the Honorable the Treasurer *in re* Bank of New South Wales and Government Banking Business Agreement.

I HAVE very carefully re-perused the correspondence between the Under-Secretary for Finance and the Bank of New South Wales (with some portion of which, not including the later letters, I had been familiar from their having been submitted for my perusal some months since by the Treasurer); and I have given my best consideration to the terms of the agreement with the Bank of New South Wales for the conduct of the Government banking business. By the 6th clause of this agreement the Government may, at any time during the currency of this contract (anything contained in the agreement to the contrary notwithstanding), make arrangements with the Bank of England for the negotiation of loans, the management of the Public Debt, or the payment of the interest thereon. Upon the completion of such arrangements any right acquired under the contract by the Bank conducting the Government business for commission or other charge for services of this nature shall cease, and other provisions of the contract will then become subject to revision should the contracting Bank desire it. Before the Government finally exercised its power under this section it was notified to the Bank that arrangements were being made with the Bank of England for the issue as well as for the inscription of future loans, and subsequently (a month later) the Bank was invited to exercise its right of revision if it so desired. A long correspondence ensued and some personal interviews took place between the Treasury and the Bank, but without apparently any definite conclusion being arrived at. Meanwhile, during the progress of these negotiations, the Treasury requested the Bank

to transfer from the Government funds in England to this Colony the sum of £350,000 at once, £350,000 at the expiration of thirty days, and £500,000 thirty days thereafter. This application was made in precise accordance with the terms of the 20th section of the agreement, which provides that the Bank will transfer the sums specified with a premium of $\frac{1}{2}$ per cent. on such transfers, the debit entries to be made in London simultaneously with the credit entries here. In connection with transfers of this nature it is distinctly provided under the agreement that they are to be made when required without the Government being called upon to produce evidence, other than that by cablegram, that the amount to be transferred is at the credit of the Government in any of their accounts in the Bank in London. The effect of this transfer would have been to place the Government in funds here to the extent of £1,200,000, and the Bank of New South Wales would have had to pay to the Government the exchange—£6,000. On 17th October the Bank acknowledged this letter and intimated that when the terms of revision had been satisfactorily arranged the matter would be considered. In other words that the contract had ceased to operate—that all powers under it were suspended, and that the obligations of the Bank with regard to any banking business were no longer enforceable, because negotiations were pending for the revision of the agreement. To this letter the Treasury replied, that until a revision took place the agreement subsisted, and that such revision could be undertaken without delay. At the same time it was intimated that the Government funds to its credit in the London office of the Bank had been supplemented by the payment of one million sterling from the proceeds of the then recently negotiated loan. It is unnecessary for the purposes of this opinion to make any reference to the correspondence which followed, and I am glad to be relieved of the necessity of advertising to it, since it is marked upon the part of the Bank with an offensiveness and incoherence which ought, in my judgment, to have induced the Treasury to bring so irregular and insulting a correspondence to a close at once. The issue raised is entirely irrespective of these unwarrantably insolent letters, and it is this,—whether the Bank was relieved from the fulfilment of its agreement on the Government making arrangements with the Bank of England for the negotiation of its loans or whether the agreement remained in force until the revision of its terms had taken place. I am of opinion that the agreement did and does remain in full force until its terms are altered by mutual consent. The reasons for this opinion are obvious. To hold anything else would be to leave the whole banking business of the Government without regulation of any kind the instant that the Government exercised a power with regard to a portion of its business, the

exercise of which had been carefully and specifically provided for, and the knowledge of the possible exercise of which at any time was in the mind of the Bank when the agreement was made. It would be to give to the Bank the entire and uncontrolled mastery of the financial situation. Indeed, nothing more clearly and conclusively shows this than the fact that although the agreement provides an interest charge of 5 per cent. per annum on any overdraft which the Government may require in Sydney, the Bank unquestionably violated the agreement by increasing that charge to 8 per cent., and at the same time refused to put the Government in funds here from its moneys held by the Bank in London, and actually instructed the Bank there to refuse to receive a deposit by transfer from the Bank of England of £900,000. It seems to me that the object of the Bank is to preserve in full force all those clauses of the agreement the present operation of which is advantageous to the interests of the Bank, and to regard as of no force or effect those portions of it which are not beneficial to the Bank. Thus the Bank will swell our local liabilities for which they are charging the Government (illegally I think) 8 per cent. interest, and at the same time refuse to put the Government in funds here from the millions to its credit in England. So preposterous an interpretation of the agreement is undeserving of serious consideration. If the Bank, after the Bank of England arrangement, conceived the agreement to be no longer beneficial, it should have submitted its distinct terms of revision to the Treasury, and if they were not assented to, the agreement might be terminated by the notice required by the 1st section of the contract. Although I am strongly impressed with these convictions, I would venture to suggest to my honourable colleague the Treasurer that he should make a final effort to arrange, if that be possible, this unpleasant matter by means of a personal interview with the representatives of the Bank of New South Wales ; and that no time should be lost in bringing this arrangement to a satisfactory conclusion.

WILLIAM BEDE DALLEY.

Colonial Secretary's Office,
6th December, 1884.

